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Dear FCA,

**Financial Services Consumer Panel response to CP26/28 The UK AIFM Regime**

The Financial Services Consumer Panel welcomes the opportunity to respond to CP26/28 on the UK AIFM regime.

This response builds on the Panel's June 2025 response to [the FCA's Call for Input on the future regulation of alternative fund managers](#), and our related response to [HM Treasury](#). The Panel continues to support high minimum standards, regulation based on the full risk of consumer harm, clear and comparable information, effective accountability and access to redress.

The Panel broadly supports a simpler and more proportionate regime, provided it does not weaken consumer protection. Consumers may invest in AIFs directly or indirectly through pensions, insurance products and other pooled investments. The FCA should therefore assess each proposal by whether it protects consumers' money, makes risks and costs clear, supports fair value and preserves effective accountability and redress.

The Panel's overarching view is that proportionality should reflect the risk of consumer harm, not only the size or business model of the manager. All managers should meet clear minimum standards, with stronger requirements where funds are more complex, leveraged, difficult to value or sell, or expose retail consumers directly or indirectly.

The Panel supports clearer rules, comparable and consumer-tested information, and proportionate requirements where equivalent consumer outcomes can be shown.

The Panel does not support changes that remove independent checks, weaken accountability or make it harder for consumers to understand risks, access their money or obtain redress.

The Panel broadly supports flexibility in delegation, reporting and depositary models only where responsibilities remain clear, core protections are maintained and any cost savings are passed on to consumers.

More broadly, the Panel encourages the FCA to ensure it has the information and powers needed to identify rising risks and intervene early.

Overall, the Panel considers that the FCA should monitor the reforms' effect on charges, access to investments, fund suspensions, complaints and redress, publish the findings and review the rules if evidence of consumer harm emerges.

Yours sincerely,

Chris Pond  
Chair, Financial Services Consumer Panel

## **Annex A – Responses to CP26/28 The UK AIFM Regime**

### **1. Do you agree with our proposed size calculation, i.e. the aggregate NAV of all CIS and non-CIS AIFs and non-AIF CIS, managed by the AIFM?**

The Panel broadly agrees with the FCA's proposal to calculate an AIFM's size by adding the net asset value of all the funds and schemes it manages. This could give consumers more consistent protection across a manager's whole business. Relying solely on size threshold could harm consumers if size alone misses risks created by borrowing, hard-to-sell assets, complex products or links across a group. We recommend that the FCA also considers a risk-based override, anti-avoidance rules and regular recalculation.

The Panel broadly agrees with the FCA's proposal to require firms to notify it when they cross a size threshold, with a delay before the rules for the new tier apply. This could give firms time to adjust without disrupting services for consumers. However, it could harm consumers if firms game the thresholds or important safeguards are delayed after risks have increased. We recommend that the FCA also considers average asset values, rules for temporary and sustained breaches, immediate core safeguards and clear transition guidance.

### **3. Do you foresee any challenges and practical issues because of the Treasury's clarification of the definition of an AIF, and the potential for some non-AIF CISs to be reclassified as AIFs?**

The Panel broadly agrees with the FCA's proposed approach to bringing schemes that are currently treated as non-AIF collective investment schemes into the AIF regime following the Treasury's clarification.

This could give consumers clearer and more consistent protection, because similar products would be covered by similar rules. However, it could harm consumers if uncertainty about classification leads to confusing information, product closures, higher costs or disruption for existing investors.

The Panel therefore considers that the FCA should provide enough clarity and time for the change to be implemented without disadvantaging consumers. We recommend that the FCA also considers suitable consumer testing, workable examples, a reliable classification process, suitable transition periods and protections to ensure existing consumers can continue to access and exit their investments fairly.

### **4. Do you think that the SYSC and COBS rules that currently serve as guidance should be applied as rules to residual CIS operators? Please explain why or why not. Are there any other rules that you think we should consider applying to residual CIS operators?**

The Panel agrees with the FCA's proposal to turn current guidance on governance and conduct into binding rules for residual scheme operators<sup>1</sup>. This could give consumers clearer rights, more consistent treatment and stronger protection when standards are not met. However, it could harm consumers if the boundaries of the rules are unclear or if different operators apply them inconsistently. The Panel therefore considers that the rules should set a clear minimum level of protection for all consumers. The Panel also recommends that the FCA considers applying to residual CIS operators rules on conflicts of interest, product governance, fair value, financial promotions, complaints, vulnerable customers, operational resilience, client assets and Consumer Duty outcomes.

#### **5. Do you have any comments on our proposal to apply enhanced investor disclosure requirements to some categories of residual CIS?**

The Panel agrees with the FCA's proposal to require enhanced disclosures for higher-risk residual schemes. These disclosures would cover matters such as the investment strategy, access to money, borrowing, valuation, fees, conflicts of interest and limits on leaving the scheme. This is consistent with our June 2025 response, where we said information should be complete, clear, understandable, timely, comparable across funds and tested with the intended audience. The Panel believes that this could help consumers understand and compare the main risks and costs before investing. However, it could harm consumers if important information is hidden in long, technical or inconsistent documents. The Panel therefore considers that the most important information should be short, clear and easy to compare. We recommend that the FCA also considers a standard plain-language summary, prominent warnings, total-cost and performance information, accessible formats and consumer testing.

#### **6. Should AIFMs only appoint an independent valuer subject to certain conditions? If so, do you agree with the conditions that we have proposed?**

The Panel broadly agrees with the FCA's proposal to allow an independent valuer to be appointed only when certain safeguards are met. An independent valuer checks what a fund's assets are worth, which can affect the price consumers pay when buying or selling. This could improve the accuracy and fairness of those prices. However, it could harm consumers if the valuer is not genuinely independent, does not have the right expertise or cannot be held accountable when valuations are wrong. The Panel therefore considers that independence must be tested in practice, not simply stated in a contract. The Panel recommends that the FCA also considers minimum competence requirements,

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<sup>1</sup> Residual scheme operators means firms that run certain collective investment schemes that do not fall within the main authorised-fund or AIFM rulebooks.

regular reviews, direct reporting to a governing body, clear responsibility for errors, disclosure of conflicts and extra checks where asset values are uncertain.

**7. Do the baseline rules<sup>2</sup> we propose represent an appropriate standard to set for all AIFMs?**

The Panel agrees with the FCA's proposal to set common minimum standards for every AIFM, with additional rules where the risks are greater. This is consistent with our June 2025 Call for Input response, where we called for high minimum standards for all managers, including the FCA Principles, the Consumer Duty and the Senior Managers and Certification Regime (SM&CR). This could ensure that all consumers receive a basic level of protection, regardless of the size of the manager. However, it could harm consumers if the baseline becomes the maximum expected standard or it does not respond to rapid growth or retail exposure. The Panel therefore considers that firms should move to stronger requirements whenever the potential harm to consumers increases. The Panel recommends that the FCA also considers clear consumer-outcome standards, named senior accountability, regular checks that controls are working and faster supervisory action when risks rise.

**8. Should we remove the gross and/or commitment method calculations or would you prefer the regime to retain an adjusted version of the calculations?**

The Panel disagrees with the option of removing the standard gross and commitment methods used to calculate leverage. Leverage means using borrowing or financial contracts to increase a fund's exposure, which can increase both gains and losses.

The Panel considers that consumers need at least one consistent measure across all funds. This position is grounded in the need for consumers to be able to compare different funds on a like-for-like basis. Without a common leverage metric, consumers may struggle to understand relative risk, assess how much additional exposure a manager is taking, or identify when a fund is materially more leveraged than its peers. Comparability is particularly important in this context because leverage can amplify losses and create liquidity pressures, meaning that misunderstandings can lead to poor investment decisions and consumer harm.

We therefore recommend that the FCA also considers retaining at least one standard leverage measure, explaining how any additional method differs,

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<sup>2</sup> The proposed baseline rules are the minimum standards that every AIF manager would have to follow, regardless of its size. In simple terms, they would cover: managing risks properly, checking that fund assets are valued fairly, managing conflicts of interest, having clear governance and senior accountability, giving investors clear information, making sure outsourced activities are properly overseen, and keeping appropriate records and controls. Larger and/or higher-risk managers would then face extra, more detailed rules.

showing the effect under stressed conditions and highlighting material differences clearly to consumers through consumer testing.

**9. Does a hedging exemption for closed-ended AIFs that use leverage only for hedging purposes work well to tailor our risk management and liquidity rules? If so, how should hedging be defined?**

The Panel broadly agrees with the FCA's proposal to apply lighter risk and liquidity rules to closed-ended funds that use leverage only for hedging. Hedging is intended to reduce a specific investment risk rather than increase returns. This could avoid unnecessary costs where borrowing or financial contracts genuinely make the fund safer. However, it could harm consumers if speculative positions, excessive hedges or poorly matched hedges are treated as risk-reducing.

The Panel therefore considers that an exemption should be narrow and supported by evidence and recommends that the FCA also considers an objective definition of hedging, evidence that the hedge works as intended, limits on over-hedging, stress testing, governing-body oversight and prompt reclassification when a position no longer qualifies.

**10. Should we allow AIFs to undertake a de minimis level of leverage (for investment purposes)? If so, how should the de minimis level be calculated? What is the appropriate threshold?**

The Panel broadly agrees with the FCA's proposal to allow a small amount of leverage for investment without applying the full rules for leveraged funds. This could give funds limited flexibility and avoid costs that are out of proportion to the risk. However, leverage can increase losses and pressure on a fund's cash, and consumers could be harmed if borrowing or financial-contract exposure is hidden or measured only at convenient times.

The Panel therefore considers that any allowance should be low and clearly defined. The Panel also recommends that the FCA considers a conservative limit based on both the fund's net assets and its total exposure, combining all forms of leverage, the highest level of leverage used during the period, as well as the level reported at the end of the period, giving consumers clear information about how leverage may affect losses.

**11. Can you foresee any benefits or challenges in allowing firms to disclose to a fund's investors a leverage method that is best suited to the AIF?**

The Panel broadly agrees with the FCA's proposal to let firms show consumers the leverage measure that best suits each fund. This could explain the fund's actual strategy more clearly. However, it could harm consumers if different measures make funds difficult to compare or present the level of risk as lower than it is.

The Panel recommends that the FCA considers requiring one standard leverage measure in every case and allowing an additional fund-specific measure only with a clear explanation, a comparison with the standard measure and consumer-tested wording.

**12. Should all AIFMs be subject to baseline standards, with additional requirements applying according to the type of AIF managed and the size of the firm? If not, what alternative approach would you suggest?**

The Panel agrees with the FCA's proposal to set baseline standards for all AIFMs, with additional requirements based on the type of fund and the size of the manager. This reflects our June 2025 position that categorisation should use a broad risk assessment covering all factors that may cause consumer harm, rather than relying mainly on size and leverage. The proposal could provide every consumer with a common minimum level of protection while applying stronger safeguards where risks are greater. However, it could harm consumers if size is used as a simple shortcut and important risks are missed. The Panel therefore considers that the level of protection should reflect the actual risk of consumer harm.

The Panel recommends that the FCA also considers access to money, leverage, complexity, uncertainty over asset values, the type of investor, concentrated holdings, outsourced services and rapid growth, with power to move a manager into higher requirements.

**13. Should firms managing only closed-ended, unleveraged AIFs be subject only to baseline risk management requirements? If not, what alternative approach would better reflect the risks posed by those firms?**

The Panel broadly agrees with the FCA's proposal to apply only baseline risk-management requirements to managers of closed-ended funds that do not use leverage. Consumers cannot normally demand their money back from a closed-ended fund, and the absence of leverage reduces some risks. This could justify simpler requirements. However, consumers could still be harmed by poor valuations, concentrated holdings, operational failures and assets that are difficult to sell.

The Panel therefore considers that baseline requirements must still address these risks and recommends that the FCA considers minimum scenario testing, business-continuity arrangements and strong valuation oversight, with additional requirements where retail consumers, illiquid assets and/or highly concentrated portfolios are involved.

**14. Should the largest firms should remain subject to a more detailed framework that preserves the substantive standards of the current regime, while simplifying the drafting where possible? If not, why not?**

The Panel agrees with the FCA's proposal to keep detailed standards for the largest firms while simplifying the wording of the rules. Large firms can affect many consumers and the wider market, so stronger requirements remain necessary. Clearer drafting could make responsibilities easier to understand and follow. However, consumers could be harmed if simplification removes measurable requirements or makes it harder for the FCA to challenge weak practice.

The Panel therefore considers that simpler wording must not mean weaker protection and recommends that the FCA also considers preserving clear minimum outcomes, detailed supervisory information, stress testing, plans for an orderly closure and named senior accountability.

### **15. Should small AIFMs should be required to comply with new, simplified liquidity risk management rules?**

The Panel agrees with the FCA's proposal to introduce simpler liquidity-risk<sup>3</sup> rules for small AIFMs. Simpler rules could help smaller managers control risk without complexity. However, consumers could be harmed if the rules fail to identify when assets cannot be sold quickly, leading to delayed withdrawals and losses.

The Panel therefore considers that simplified rules must still provide meaningful protection. We recommend that the FCA also considers minimum governance, clear records of how easily assets can be sold, proportionate stress tests, warning triggers, fair withdrawal arrangements and prompt notice of liquidity problems.

### **16. We propose that medium and large UK AIFMs of open ended AIFs that invest in other open-ended funds should be required to 'look through' to the portfolio of those other funds to better assess the liquidity risk. Can you foresee any issues that we should be aware of?**

The Panel agrees with the FCA's proposal to require medium and large managers of open-ended funds that invest in other open-ended funds to examine the underlying investments. This could reveal shared holdings and hidden liquidity problems before many consumers try to withdraw money at the same time. However, consumers could be harmed if missing, delayed or inconsistent information gives managers false confidence about how quickly assets can be sold.

The Panel recognises that managers may not always know what information is missing or unreliable, and that they are ultimately only as good as the data they receive. For this reason, the Panel considers it essential that managers clearly explain the limits of their analysis; including where they rely on estimates,

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<sup>3</sup> Liquidity risk is the risk that a fund cannot sell assets quickly enough to meet requests from consumers who want their money back.

assumptions or incomplete data so that look through managers, consumers and regulators understand the degree of uncertainty involved.

The Panel also recommends that the FCA considers standard data templates and documented estimates where information is missing and reliable data cannot be obtained. The Panel also recommends that the FCA considers analysis of simultaneous withdrawals and encourages continuous cooperation with overseas regulators.

**17. Are there any rules that are unnecessary for medium AIFMs or areas in which medium AIFMs should not be subject to the same level of prescription as large AIFMs?**

The Panel broadly agrees with the FCA's proposed approach to allowing medium AIFMs to use less detailed processes than the largest firms where this is appropriate. The Panel understands that this could remove unnecessary work and help keep services affordable for consumers. However, consumers could be harmed if less detailed rules develop weaker protections or if a medium-sized manager runs a particularly risky fund.

The Panel therefore considers that any flexibility should depend on the risks and the outcomes achieved, not the size of the AIFM alone. We recommend that the FCA also considers requiring managers to show that alternative controls provide equal protection, applying stronger requirements when risks rise and reviewing any exemptions granted regularly.

**18. Do you have any comments on our general approach to delegation?**

The Panel broadly agrees with the FCA's proposal to simplify the rules that apply when an AIFM delegates work at another organisation. The Panel understands that delegation can give consumers access to specialist expertise and more resilient services. However, consumers could be harmed if long chains of providers make it unclear who is responsible, weaken oversight and could prevent/delay the FCA from obtaining records when records are needed.

The Panel therefore considers that responsibility must remain clear from the AIFM through every level of delegation. We recommend that the FCA also considers minimum in-house capability, a full map of all delegated work, strong checks before and during appointment, risks from relying on a small number of providers, access to data and clear information for consumers about important, delegated functions.

**19. Do you agree with our proposals on delegation of investment management activities to entities that are not authorised or supervised for that activity?**

The Panel disagrees with the FCA's proposal to allow investment management to be delegated to an organisation that is not authorised or supervised for that work. Although the Panel understands that such an organisation may offer

specialist knowledge and could widen investment choices, consumers could be harmed if there are gaps in competence, conduct standards, financial resources, accountability or access to redress.

The Panel therefore considers that this should be permitted only in exceptional and tightly controlled circumstances. The Panel also recommends that the FCA considers requiring full access for audits and supervision, legally enforceable responsibilities, clearer disclosure to consumers, governing-body approval and power to revisit decisions and stop unsuitable arrangements.

**20. Do you agree with the proposed changes to the requirements applying to an AIF's annual report? If not, please explain.**

The Panel broadly agrees with the FCA's proposal to simplify the information required in an AIF's annual report. This could make reports shorter, clearer and easier for consumers to use. However, consumers could be harmed if information about costs, performance, risk or important changes is removed or made harder to find.

The Panel therefore considers that simplification should focus on presentation rather than reducing essential information and we recommend that the FCA also considers a standard set of core information, comparisons with earlier years, accessible digital formats, a plain-language investor summary and clear reporting of material changes and consumer outcomes.

**21. What are your views on requiring small UK AIFMs and certain operators of residual CISs to prepare an annual summary for its investors?**

The Panel agrees with the FCA's proposal to require small UK AIFMs and certain residual scheme operators to prepare an annual summary for investors. This could give consumers a regular and understandable account of how their investment has performed, what it has cost and what risks have changed. However, consumers could be harmed if the summary is incomplete, too technical and/or is used to replace other information that they still need. The Panel therefore considers that the summary should be short and accessible but cover all essential matters. The Panel recommends that the FCA also considers mandatory information on performance, total costs, access to money, exit limits, leverage, valuation, conflicts of interest, complaints and significant changes.

**22. Have we struck the right balance between removing prescription from the disclosures to professional investors and ensuring that those investors can access the information they need? Are there areas of the rules that could be made more or less prescriptive?**

The Panel broadly agrees with the FCA's proposal to make disclosures to professional investors less prescriptive. This could allow information to be better tailored to the fund and to experienced investors. However, as we stressed in our June 2025 response, consumers may still be affected indirectly through

pensions, insurance products and other investments managed on their behalf. We also said that firms should hold documented evidence that an investor meets the relevant professional or accredited criteria and should not rely on self-certification alone. Consumers could be harmed if important information is missing or cannot be compared across funds. The Panel therefore considers that some core information should always be provided regardless of who the immediate investor is. The Panel recommends that the FCA also considers mandatory disclosures on total costs, leverage, access to money, valuation, conflicts of interest, special treatment given to some investors and material changes, presented in a consistent and machine-readable form.

**23. Do you agree with our approach for AIFM retail disclosures? Do you think it is proportionate to the risks posed by these products?**

The Panel broadly agrees with the FCA's proposal to design retail disclosures around the particular risks of AIFs. These products can be complex, difficult to sell quickly and capable of causing substantial losses. Clear information could help consumers understand those risks and the full costs before investing. This is consistent with our June 2025 response, where we called for communications to be complete, clear, understandable, timely, comparable and tested with the target market. However, consumers could be harmed if disclosure is treated as a substitute for designing suitable products and ensuring they reach the right customers.

The Panel therefore considers that disclosure must sit alongside strong product and distribution controls. The Panel recommends that the FCA also considers full alignment with the Consumer Duty, firm checks that the product is suitable for its intended market, clear loss and liquidity examples, standardised total-cost information, accessible formats, consumer testing and monitoring of actual outcomes.

**24. Do you agree with our proposal to disapply the COBS 16.3 periodic reporting rules and rely on our proposed disclosure rules instead?**

The Panel broadly agrees with the FCA's proposal to remove the COBS 16.3 periodic reporting rules and rely on the new disclosure rules instead. This could remove repeated information and make communications clearer for consumers. However, consumers could be harmed if the replacement information is provided less often, arrives too late or leaves out details that help them understand performance, costs and risk.

The Panel therefore considers that the existing rules should be removed only if the new framework provides equal or better protection. The Panel recommends that the FCA should also consider comparing the old and new requirements line by line, checking for gaps, testing the information with consumers and keeping minimum rules on frequency, delivery and urgent notices when something important changes.

**25. Have we adequately taken account of the differences between the company board and the AIFM and reflected the split of responsibilities in the AIFM rules?**

The Panel broadly agrees with the FCA's proposed approach to dividing responsibilities between an investment company's board and its AIFM. Clear responsibilities could improve oversight and make it easier for consumers to understand who is accountable. However, consumers could be harmed if each body assumes that the other is responsible, if important information is not shared quickly or if gaps make redress harder.

The Panel therefore considers that responsibility should be clear at every stage and recommends that the FCA also considers a mandatory responsibility map, rules for sharing information and escalating problems, strong conflict controls, clear information for investors and a requirement that responsibilities cannot be divided in a way that weakens duties owed to consumers.

**26. Does our proposal to disapply the AIFM investor disclosure, and reporting and notification to investor rules for closed-ended investment companies admitted to trading on a UK regulated market, fully account for equivalent outcomes that are delivered through other requirements?**

The Panel broadly agrees with the FCA's proposal to remove some AIFM disclosure, reporting and notification rules for closed-ended investment companies traded on a UK regulated market where other rules provide the same protection. This could avoid duplicate information and make communications less confusing. However, consumers could be harmed if the other rules provide different information, apply at different times or leave gaps that are important to retail shareholders.

The Panel therefore considers that rules should be removed only where equivalent consumer outcomes can be shown in practice. The Panel recommends that the FCA also considers publishing a rule-by-rule assessment, keeping notices for events that are critical to investors, monitoring for gaps and retaining the power to restore requirements if consumer protection weakens.

**27. Do you have any comments on our proposed guidance on the NPPR?**

The Panel agrees with the FCA's proposal to provide guidance on the National Private Placement Regime, which governs how certain non-UK funds can be marketed in the UK. Clear guidance could make responsibilities easier to understand and help the FCA supervise the market consistently. However, consumers could be harmed if overseas arrangements limit the information they receive, make accountability unclear or reduce their access to complaints and redress.

The Panel therefore considers that the guidance should make clear which protections apply when a fund or manager is based outside the UK. This reflects our June 2025 position that consumers should retain access to the Financial

Ombudsman Service (FOS) and Financial Services Compensation Scheme (FSCS) where applicable, and should receive the same level of protection for similar products and services. We recommend that the FCA also considers clear responsibility for marketing and ongoing compliance, minimum information for UK investors, access to overseas records, the treatment of any retail exposure and prominent warnings about any limits on UK protection and redress.

**28. Should all large and medium UK AIFMs continue to appoint a depositary for each unauthorised AIF they manage? If not, why not?**

The Panel agrees with the FCA's proposal to require large and medium UK AIFMs to continue appointing a depositary<sup>4</sup> for every unauthorised AIF. This could protect consumers against missing assets, improper payments and weak oversight. However, consumers could be harmed if requirements that add little protection create costs that are passed on to them. The Panel therefore considers that the core depositary protections should remain, while any exemption should depend on the actual risk to consumers. We recommend that the FCA also considers the type of assets, custody risk, leverage, complexity, conflicts of interest, the type of investor and whether any reduction in cost is passed on to consumers.

**29. Could the depositary regime could be made more proportionate for certain types of unauthorised AIF, and if so how?**

The Panel broadly agrees with the FCA's proposal to tailor depositary duties for certain unauthorised AIFs where a particular function may not be necessary. This could remove avoidable costs while keeping meaningful independent oversight. Consumers could benefit if savings reduce charges without weakening protection. However, consumers could be harmed if independence, safekeeping, cash monitoring or accountability is reduced, or if responsibilities become unclear. The Panel therefore considers that each proposed change should be tested separately and should deliver the same level of consumer protection. We recommend that the FCA also considers clear risk criteria, minimum standards for independence and competence, clear responsibility when something goes wrong, transparent information for investors and regular review of any exemption.

**30. Should a small UK AIFM not be required to appoint a depositary for each unauthorised AIF it manages, but be able to opt to do so?**

The Panel recognises that the proposal could reduce charges for consumers. However, the Panel disagrees with the FCA's suggestion not to require small UK AIFMs to appoint a depositary for each unauthorised AIF, while allowing them to opt in. Although we understand that this may lower costs for some small funds—and that such savings may ultimately be passed on to consumers—removing the

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<sup>4</sup> A depositary is an independent body that safeguards the fund's assets, monitors cash and oversees key processes.

requirement for a depositary poses significant risks. Without a depositary, consumers may lose independent checks over assets, cash, valuations, and conflicts of interest. An optional system may also prove ineffective, as funds under cost pressure may simply choose not to appoint one. The Panel therefore disagrees with a general exemption. A depositary should remain compulsory where there are retail investors, difficult-to-value assets, borrowing, custody risks, related-party conflicts, or weak governance.

**31. Should an AIFM be able to appoint more than one depositary for the same AIF so that they can carry out different functions? What impact might this have on competition?**

The Panel broadly agrees with the FCA's proposal to allow an AIF to appoint more than one depositary, with different firms performing different functions. This could increase specialist choice and competition. However, it could also harm consumers if responsibility becomes fragmented, checks are duplicated, or delays arise in actions, asset recovery, or consumer redress.

The Panel therefore recommends that the FCA also consider requiring a lead depositary or binding responsibility, shared information and escalation duties, consolidated reporting, and clear investor disclosure.

**32. Does our analysis of how responsibilities could be shared between depositaries performing functions for the same AIF capture all relevant aspects? Is there anything else that we should consider?**

The Panel broadly agrees with the FCA's proposal to establish a framework for sharing duties between several depositaries serving the same AIF. This could combine specialist skills while keeping oversight in place. It could harm consumers if no one is accountable for omissions, conflicting instructions, cyber incidents, custody failures or insolvency. We recommend that the FCA also considers joint operating standards, one escalation route, consolidated audit trails, scenario testing and clear liability and compensation rules where possible.

**33. Do you agree with our proposed approach to the cash monitoring function? Please explain any pros and cons.**

The Panel broadly agrees with the FCA's proposal to introduce a more proportionate approach for depositaries to monitor fund cash, including subscriptions, withdrawals, and unusual payments. Better-designed monitoring could reduce duplication and enable specialist providers to enter the market. However, less frequent or fragmented monitoring may mean that mistakes, fraud, or unusual payments are detected too late. The Panel also believes that, although greater competition can be beneficial, it may create harm if it lowers standards or leaves consumers uncertain about who is responsible.

The Panel therefore broadly supports increased flexibility, provided that all models meet common requirements for independence, competence, financial strength, insurance, access to information, and continuity of service.

**34. Would allowing greater flexibility in depositary models be beneficial to the market for providing oversight services? If not, why not?**

The Panel broadly agrees with the FCA's proposal to allow greater flexibility in the way depositary services are provided. More flexible models could bring in specialist providers, increase choice and competition, and improve the quality and availability of oversight services.

The Panel believes that consumers could benefit if this leads to stronger protection and/or lower charges. However, flexibility could harm consumers if responsibilities are split between providers, standards differ or it becomes unclear who is accountable when something goes wrong. This could delay action, the recovery of assets or consumer redress.

The Panel therefore considers that the proposal could be useful, but only if every depositary model keeps the same core protections for consumers. Greater competition is not beneficial if it lowers standards or creates gaps in responsibility. We recommend that the FCA also considers common minimum standards for independence, competence, financial strength, insurance and access to information; a clearly identified lead provider where duties are divided; no gaps in liability or compensation; continuity arrangements if a provider fails; and checks that any cost savings are passed on to consumers.

**38. What are your views on the options we have presented on the AIFM business restriction? Are there other approaches we should consider?**

The Panel broadly agrees with the FCA's proposed approach to relaxing the restriction on other business carried on by an AIFM. This could support useful services and more efficient business models. The Panel believe that this could also harm consumers if extra activities create conflicts, drain capital or liquidity, distract management or make failure harder to manage. We recommend that the FCA also looks at the risks of each extra activity separately. It should check whether the activity could reduce the money available to protect consumers from harm, create conflicts of interest, confuse consumers about which services are regulated and/or make it harder to close the business safely. The FCA should also be able to stop activities that may cause consumer harm.